MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

SUPPLEMENTARY EXAMINATION

TRIMESTER 1

BEC1614 – MICROECONOMICS

(All section/Groups)

17 NOV 2015
9.00 AM – 12.00 PM
(3 HOURS)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **4 pages** with **5** Questions.
2. Answer All **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Students are allowed to use non-programmable scientific calculators.
4. Please write all your answers in the answer booklet provided.

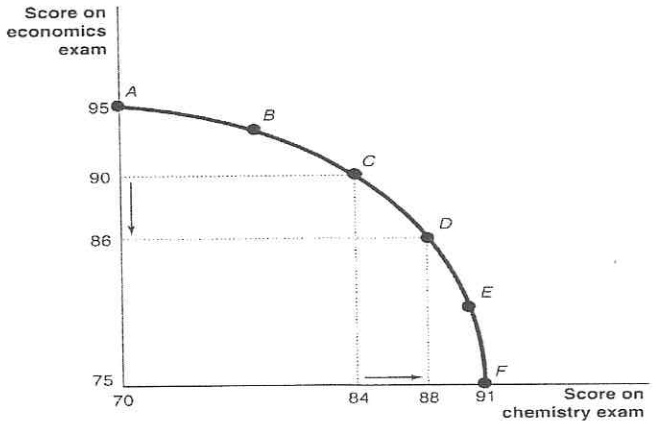
Questions 1

a) Which of the following represents positive statement and which represents normative statement? (3 marks)

i. The Malaysian government should spend more on AIDS research.
ii. Increase in income tax will reduce household consumption
iii. A large federal budget deficit has an adverse effect on the economy

b) The following diagram shows the scores in Economics and Mathematics

i. If you are at choice C, what is your opportunity cost of increasing your chemistry score? Is the opportunity cost of increasing your chemistry score is increasing or decreasing? (5 marks)



ii. List the five factors that could cause the shift in demand curve of an individual. (5 marks)

c) What is the meaning of perfectly inelastic demand and perfectly elastic demand? Show each of these graphically. (7 marks)

(Total 20 marks)

Question 2

a) The relationship between price and quantity demanded at four different prices for a product is given below- (6 marks)

$P = \$11, Q_d = 16$
$P = \$9, Q_d = 24$
$P = \$7, Q_d = 32$

Using the midpoint formula, calculate the price elasticity of demand when the price falls from-

i. \$11 to \$9 and
ii. \$9 and \$7.

Continued...

b) What is price ceiling? Use data in the table below to explain the economic effects of a price ceiling at \$6, at \$5, and at \$4. (8 marks)

Price	Quantity demanded	Quantity supplied
\$ 7	4500	4500
\$ 6	5000	3500
\$ 5	5500	2500
\$ 4	6000	1500

c) Explain the income and substitution effects. Use these concepts to describe what happens when the price of a product decreases. (6 marks)

(Total 20 marks)

Question 3

a) Your firm has total sales revenue of \$1,000 and total explicit costs of \$600 and total implicit cost of \$300. Compute the accounting profit and the economic profit for the firm? (4 marks)

b) The table below shows the total production of a firm as the quantity of labor employed increases. The quantities of all other resources employed are constant. Compute the marginal product and average product. (6 marks)

Inputs of labour	Total product	Marginal product of labour	Average product of labour
0	0	—	—
1	40		
2	100		
3	165		
4	200		
5	225		
6	240		
7	245		
8	240		

After calculating the above, show at what levels are there increasing returns to labor and at what levels are there decreasing returns to labor?

c) In Nusajaya, Johor, the land value went up dramatically when Legoland built its theme park there. Explain why do land price in Nusajaya area increase? (4 marks)

Continued ...

d) Consider the following information for a GreenBag, a recycling bag manufacturing firm that can sell as many bags as it wants for RM3 per bag.

No. of workers	No. of bags produced per day	MP_L	TR	MRP_l
0	0			
1	30			
2	80			
3	110			
4	135			
5		20		
6	170			
7				
8				30
				15

i. Fill in all the blanks in the table. (2 marks)

ii. If this firm must pay a wage rate of RM40 per worker per day, determine how many workers should it hire? Briefly explain why. (2 marks)

iii. Suppose the wage rate rises to RM50 per worker. Calculate how many workers should be hired now? (1 marks)

iv. Suppose the firm adopts a new technology that doubles output at each level of employment and the price of the recycle bag remains at RM3. Discuss what is the effect of this new technology on MP_L and MRP_L? Now if the wage is raise to RM50, analyze how many workers should the firm hire? (1 mark)

Question 4 **(Total 20 marks)**

Suppose that you and your partner set up Sweet-Chips Sdn Bhd, a perfectly competitive firm producing sweet potato chips. You are currently the marketing manager for Sweet-Chips Sdn Bhd. The company is a small company and its current level of production is 500 kg per week. The average total cost (ATC) for the production of 500 kg sweet potato chips is RM2 per kg. This week, all 500 kg have been ordered by your regular customers.

a) If you sell the sweet potato chips at RM6 per kg, graphically illustrate Sweet-Chips Sdn Bhd's profit (or loss) condition. (4 marks)

b) Based on the selling price in (a), what will happen to Sweet-Chips Sdn Bhd in the long run? (3 marks)

c) What can you say about Sweet-Chips Sdn Bhd's average total cost (ATC) for the production of 450 kg of sweet potato chips if Sweet-Chips Sdn Bhd is producing at economies of scale? Please explain your answer. (2 marks)

Continued ...

d) Below is the cost information to produce sweet potato chips by Sweet-Chips Sdn Bhd for 500 kg and 501 kg of sweet potato chips. This week, all 500 kg produced have been ordered by your regular customers. If there is a new customer who is willing to buy one more kg from you at RM6.00 per kg, should you sell him that extra one kg? Explain your answer. (4 marks)

Quantity (kg)	*Average Total Cost (RM per kg)*
500	2.00
501	2.01

e) Suggest **four** characteristics of Sweet-Chips Sdn Bhd. (4 marks)

f) Give **two** suggestions to Sweet-Chips Sdn Bhd so that the company can retain its profit in the long run? (3 marks)

(Total: 20 marks)

Question 5

Both the iPhone 6 and Galaxy S6 are the latest design of smartphones available in the market. The basic features of both phones are provided below.

Samsung Galaxy S6 and iPhone 6

Samsung Galaxy S6: 6.9mm thick, 138g, aluminium unibody and glass panel, White Pearl/Black Sapphire/Gold Platinum/Blue Topaz
iPhone 6: 6.9mm thick, 129g, anodised aluminium back, Space Grey/Silver/Gold

Base on the information above, answer the following questions.

a) Based on the topic of imperfect market, explain why the features of Samsung Galaxy S6 and iPhone 6 are not identical? (4 marks)

b) Samsung sometimes use celebrity endorsements for its phones. What is the argument that supports Samsung's advertisement strategy? (4 marks)

c) Graphically illustrate and explain the change in iPhone's demand and marginal revenue curves if there is a new entry of a giant smartphone producer in the market. Assume that the new entry does not change the cost of production for iPhone. (4 marks)

d) How does the knowledge of marginal product of labour helps Samsung decide whether to hire more or less worker for its firm? (4 marks)

e) Allison is an engineer at Samsung in South Korea. Her best friend, Alice, is an engineer at Sony, Malaysia. Using the Theory of Wage determination, explain why Allison's wages may be much higher than Alice's? (4 marks)

(Total: 20 marks)

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